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FIFTH PUBLIC ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY AND SUBSIDIARIES

YEAR ENDED DECEMBER 31, 1934

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FIFTH PUBLIC ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY AND SUBSIDIARIES

YEAR ENDED DECEMBER 31
1934

TO BE SUBMITTED TO STOCKHOLDERS AT THE ANNUAL MEETING TO BE HELD IN CHICAGO, ILLINOIS, TUESDAY, MARCH 12, 1935

CHICAGO, ILLINOIS, U. S. A.

MARSHALL FIELD & COMPANY

BOARD OF DIRECTORS

●

THOMAS H. EDDY
MARSHALL FIELD
STANLEY FIELD
JOHN McKINLAY
CHARLES H. SCHWEPPE
JAMES SIMPSON
JAMES SIMPSON, JR.
JOHN P. WILSON
DAVID M. YATES

OFFICERS

●

JOHN McKINLAY, *President*

DAVID M. YATES, *First Vice-President*

Vice-Presidents

FREDERICK D. CORLEY
HARRISON P. SHEDD
GEORGE W. YOUNG

Secretary-Treasurer

THOMAS H. EDDY

Comptroller

ERNEST L. OLRICH

HUGHSTON M. McBAIN, *Assistant to the President and Assistant Treasurer*

KENNETH E. ARMSTRONG, *Assistant Comptroller*

RALPH H. PIERCE, *Assistant Secretary*

TO OUR STOCKHOLDERS

The figures of our business for 1934 compared with 1933 were as follows:

Total Net Sales to Customers (Gross Less Returned Goods)

	1934	1933	% Change
First quarter	$ 22,058,300	$15,433,200	+ 42.9%
Second quarter	23,221,500	20,561,300	+ 12.9%
Third quarter	23,665,800	24,745,600	− 4.4%
Fourth quarter	31,849,500	27,717,900	+ 14.9%
	$100,795,100	$88,458,000	+ 13.9%

Net Results by Divisions

		1934		1933
MANUFACTURING AND WHOLESALING	Loss	$1,142,610	Profit	$ 740,760
RETAILING				
Principal store (including three suburban branches)—Chicago; The Davis Store—Chicago; Frederick & Nelson—Seattle; Small stores (eleven)	Profit	1,798,096	Profit	426,516
REAL ESTATE OPERATIONS				
Merchandise Mart (not including interest); Annex office building; Miscellaneous properties not used in merchandise operations	Loss	8,739	Loss	138,070
NET PROFIT FROM OPERATIONS	Profit	$ 646,747	Profit	$1,029,206
OTHER INCOME		486,020		439,904
INTEREST ON FUNDED DEBT				
Debenture bonds; First mortgage bonds		1,299,062		1,371,505
NET PROFIT OR LOSS FOR THE YEAR	Loss	$ 166,295	Profit	$ 97,605

Manufacturing and Wholesaling

The shift of the manufacturing and wholesaling division from a profit in the previous year to a loss in 1934 is largely accounted for by the unusual activity in textiles in 1933 produced by codes and processing taxes. The retail dealers, fearing rising prices, bought more than their

requirements, so that when 1934 came it was much harder to do business at a profit. A considerable part of the loss was due to silk conditions: the raw silk market declined in price for about nine months until it reached the lowest point in history, thus affecting our silk products departments. In consequence of these conditions, the results in the manufacturing and wholesaling division were much worse than in 1933. Handling and distributing expense has been kept as well in hand as code requirements would permit.

Retailing

The net profits of our principal retail store in State Street alone were greater than the amount earned by the entire retailing division. Various factors were responsible for this—not the least of which were the courage and foresight shown in the modernizing program begun when things were at their worst in 1932 and carried through 1933 and 1934, at a cost of $1,600,000 in capital expenditures, besides many thousands more charged to current operations. The chief item of capital expenditure was $630,000 for our escalators, which have proved to be economical and efficient and have attracted much favorable attention.

The same modernizing program is being carried out in our Frederick & Nelson and Davis stores. It helped the former to change a loss in 1933 to a profit in 1934 and the latter to end the year with a smaller loss than in 1933.

Liquidation of the assets of four of our small stores was initiated and partially accomplished during December 1934. It will have been completed by March 31, 1935, bringing the number of stores to seven, as against the original fourteen.

Real Estate Operations

The Merchandise Mart on December 31, 1934 showed more than 150,000 square feet of space rented to outside tenants in excess of the close of the preceding year, and there was collected a larger rental for the year than in 1933. Our own departments, largely the Wholesale, made a rental contribution also, not quite so large as the year before, on account of slightly reduced space requirements. It has been thought wise to increase the rate of depreciation on this building. Accordingly, this year's earnings have been charged with approximately $112,000 more for this purpose than in previous years. The total rents collected more than covered depreciation, including this increase, and all other expenses except interest, the charge for which appears under the interest heading. In order to increase existing reserves of previous years to agree with the new rate of depreciation, we have appropriated $325,000 from the surplus account and credited it to the reserve for Mart depreciation.

The Annex office building, which houses our Store for Men on its lower floors, rents office space on the upper floors, principally to those in the medical and dental professions. The building showed a slight loss in 1934, considerably smaller than in 1933.

"Miscellaneous properties not used in merchandise operations" refers to several warehouses and garages which are no longer necessary and which will be disposed of when the opportunity offers.

Other Income

This represents interest from securities, notes, etc. and the profit on the sale of securities and equipment.

Interest on Funded Debt

The debenture bonds, of which there are outstanding (after payment of the January 1, 1935 maturities) $9,286,500 of an original issue of $17,500,000, were issued by us shortly after the purchase of our Retail building and The Davis Store. The first mortgage bonds, of which there are $15,900,000 outstanding of an original $18,000,000, were sold at the time of the erection of The Merchandise Mart. Both issues are serial bonds, so that each year we retire $875,000 of the debentures (less any current maturities purchased by us in prior years) and $700,000 of the first mortgage bonds. The first mortgage bonds are a mortgage lien only on The Merchandise Mart.

Additional Comment

Additions to plant and equipment made during the year totaled $2,370,000, of which the major items were the $630,000 for the new escalators and approximately $300,000 for the new warehouse erected on Wabash Avenue pursuant to the terms of a lease assumed at the time of the Davis Store purchase.

There has been no change this year in the number of shares of the company's common stock held in the treasury. Of those held on December 31, 1934, 15,265 shares were acquired in 1933, at market values, through the cancellation of employes' stock purchase contracts. We are making mention of this now at the suggestion of the Stock Exchanges, although the transaction was reflected in our balance sheet of December 31, 1933.

During the year 1934 we simplified our business structure by dissolving many of our wholly owned subsidiaries or reducing them to a nominal capitalization. Those of any importance were as follows:

The Davis Company, Frederick & Nelson, Carolina Cotton & Woolen Mills Company, Marshall Field Mills Corporation, and The Thread Mills Company.

In connection with the dissolution of the Frederick & Nelson corporation, the leasehold of that company, carried on the books at $2,215,916, has been charged to surplus account. This action was taken in order that the books might properly reflect the condition after the consolidation.

The subsidiaries of any consequence that continue in existence are: Woven Fabrics Corporation, a selling subsidiary; Lumb Knitting Mills, where there is a minority interest; and Marshall Field & Company of New Jersey, under which we operate our foreign offices.

JOHN McKINLAY,
President

February 22, 1935

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AND SUBS

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand, less treasurer's drafts		$ 6,808,600.49	
Bonds, tax warrants, etc. at cost (quoted market price $280,068)		287,636.41	
Receivables—			
Accounts and notes receivable from customers	$13,471,445.27		
Due from suppliers, rents receivable, etc.	637,528.10		
	$14,108,973.37		
Less—Reserves for doubtful accounts and discounts	1,319,374.04	12,789,599.33	
Merchandise inventories, quantities and condition determined by the company, priced at the lower of cost or market—			
Manufacturing and wholesale division merchandise including raw materials and work in process of $2,580,512	$14,709,744.52		
Retail-division merchandise	10,839,908.98	25,549,653.50	
TOTAL CURRENT ASSETS			$45,435,489.73
PREPAID EXPENSES AND DEFERRED CHARGES:			
Prepaid insurance, rent, etc.		$ 406,283.15	
Supply inventories		345,566.54	
Bond discount—in process of amortization		215,428.00	967,277.69
INVESTMENT SECURITIES, ETC.:			
Deposits under construction agreements—			
Securities, at cost (quoted market price $190,612)	$ 183,332.64		
Cash	70,000.00	$ 253,332.64	
Miscellaneous securities, at cost		29,149.38	282,482.02

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization	Net	
Retail and manufacturing properties—				
Land	$ 936,814.57	$ —	$ 936,814.57	
Leaseholds (see Note 1)	1,369,405.83	177,963.07	1,191,442.76	
Buildings—				
On owned land	8,274,565.62	5,309,105.30	2,965,460.32	
On leased land (see Note 1)	17,298,814.50	5,162,321.95	12,136,492.55	
Equipment	17,710,051.59	11,076,501.94	6,633,549.65	
Merchandise Mart—constructed in 1929-30 (pledged under first mortgage)—				
Air rights and land	2,907,461.85	—	2,907,461.85	
Building and equipment	25,446,639.42	2,469,043.50	22,977,595.92	
TOTAL FIXED ASSETS	$73,943,753.38	$24,194,935.76	$49,748,817.62	49,748,817.62
GOODWILL, TRADE-MARKS, ETC.				1.00
				$96,434,068.06

NOTES: (1) Rentals payable under long-term leases are at present a
(2) Contingent liability under letters of credit—$330,000
(3) Dividends on the cumulative-preferred stock are $5,70

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DIARIES

HEET—DECEMBER 31, 1934

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—			
Trade creditors	$ 2,601,778.95		
Customers' credit balances, merchandise certificates, etc.	217,197.40	$ 2,818,976.35	
Accrued expenses—			
Salaries and wages	$ 747,261.15		
Interest on first-mortgage bonds	66,250.00		
Miscellaneous accruals	18,244.69	831,755.84	
Accrued real-estate and personal-property taxes, etc.		2,547,669.79	
First-mortgage bonds maturing in 1935		700,000.00	
Debenture bonds due January 1, 1935 ($611,200) and accrued interest	$ 833,898.25		
Less—Cash deposited with Trustee	833,898.25	—	
TOTAL CURRENT LIABILITIES			$ 6,898,401.98
FUNDED DEBT (current maturities included above):			
5% first-mortgage serial gold bonds maturing serially June 1, 1936 to June 1, 1949		$15,200,000.00	
4½% debenture gold bonds maturing serially January 1, 1936 to January 1, 1946		9,286,500.00	24,486,500.00
RESERVES:			
Reserve for Federal income taxes for prior years (subject to final determination by the Treasury Department)		$ 197,452.34	
Reserve for employes' retiring allowances—			
Balance December 31, 1933	$ 303,766.61		
Less—Retiring allowances paid during 1934	88,672.04	215,094.57	
Reserve for public-liability claims, etc.		75,884.25	488,431.16
EMPLOYES' MINORITY INTEREST IN CAPITAL STOCK AND SURPLUS (DEFICIT) OF SUBSIDIARY COMPANY			44,376.37
CAPITAL STOCK AND SURPLUS:			
Preferred stock—7% cumulative, $100-par value—callable at $120—			
Authorized, 400,000 shares			
Issued and outstanding, 296,190 shares		$29,619,000.00	
Common stock—no-par value—			
Authorized, 2,000,000 shares			
Issued, 1,400,000 shares, at stated value		14,000,000.00	
		$43,619,000.00	
Paid-in surplus		5,001,898.65	
Earned surplus (of which $226,773.97 is restricted by reason of purchase of treasury stock)		16,122,233.87	
Capital stock and surplus before deducting treasury stock		$64,743,132.52	
Less—Treasury common stock, 15,278 shares at cost		226,773.97	
Capital stock and surplus, net			64,516,358.55
			$96,434,068.06

proximately $1,400,000 per year.

657.50 in arrears (since March 31, 1932).

MARSHALL FIELD & COMPANY AND SUBSIDIARIES

Consolidated Profit-and-Loss and Earned-Surplus Accounts
For the Year Ended December 31, 1934

Consolidated Profit-and-Loss Account

Net Sales to Customers			$100,795,098.12
Rental Income from Tenants (net)			1,828,470.21
Total net sales and rentals			$102,623,568.33
Cost of Sales and Operating Expenses:			
Cost of sales and operating expenses exclusive of the items listed below		$94,303,051.42	
Rentals paid under ground and building leases		1,807,222.70	
Depreciation of buildings and equipment and amortization of leaseholds		2,283,696.22	
Real estate, personal property, franchise taxes, etc.		1,663,568.31	
Occupation ($1,065,891), processing and excise taxes		1,845,216.90	
Provision for bad debts, less recoveries of $160,149		74,065.95	101,976,821.50
Net profit from operations			$ 646,746.83
Other Income:			
Interest from securities, notes, etc.		$ 268,634.64	
Profit on sale of securities, etc. (net)		217,385.79	486,020.43
Net profit before interest charges			$ 1,132,767.26
Interest Charges:			
First-mortgage bonds		$ 818,336.00	
Debenture bonds (including amortization of bond discount)		480,726.41	1,299,062.41
Net *loss* for the year			$ *166,295.15*

Note: Retiring allowances of $88,672.04 paid during 1934 were charged against a reserve created out of earnings in prior years.

Consolidated Earned-Surplus Account

Balance at December 31, 1933			$ 16,129,445.02
Deduct—Net loss for current year			166,295.15
			$15,963,149.87
Direct Surplus Adjustments:			
Add—Contingent reserve restored to surplus		$ 2,700,000.00	
Deduct—			
Leasehold value carried by Frederick & Nelson charged off in connection with the liquidation of that subsidiary corporation	$2,215,916.00		
Adjustment of provision for depreciation on Merchandise Mart for prior years to basis of rates adopted for 1934	325,000.00	2,540,916.00	$ 159,084.00
Balance at December 31, 1934			$ 16,122,233.87

ARTHUR ANDERSEN & CO.
Accountants and Auditors
ONE LA SALLE STREET BUILDING
CHICAGO

To the Board of Directors,
Marshall Field & Company:

We have made an examination of the consolidated balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) AND SUBSIDIARY COMPANIES as at December 31, 1934, and of the statement of consolidated profit and loss and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies (including the principal subsidiaries dissolved during the year) and other supporting evidence, and obtained information and explanations from officers and employes of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of profit-and-loss and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1934, and the results of their operations for the year ended that date.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 21, 1935.